This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 002194

SIPDIS

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E.O. 12958: DECL: 10/27/2015
TAGS: ECON EFIN ELAB ENRG EPET ASEC CASC PGOV HO
SUBJECT: HONDURAN GASOLINE PRICES FROZEN UNTIL "END OF
YEAR" BY CONGRESS; ENEE TO CONSOLIDATE DEBT

REF: A. TEGUCIGALPA 2044

¶B. TEGUCIGALPA 2131
¶C. TEGUCIGALPA 1831

Classified By: EconChief PDunn for reasons 1.5 (B,D)

¶1. (C) Summary: Despite the Honduran Notables Commission recommendation to end the freeze on November 30, the Honduran legislature has extended the gasoline price freeze in effect since September 7 until the &end of the year,8 or until the approved 300 million Lempira (USD 16 million) government subsidy runs out, whichever comes first. Action on the near bankrupt national electric company (ENEE) continues, with the GOH planning to float USD 100 million in five year loans to consolidate ENEE,s high interest debt. The debt float may block attempts to create a government-backed unit to buy fuel, which had been recommended by an AmCit consultant who appears to be seeking the proposed unit,s Commissioner role. End Summary.

¶2. (U) The Honduran legislature agreed in a late night session October 17 to continue the current gasoline price freeze (reftel A and previous) for the &duration of the fuel crisis,8 which was reported in the press as December 31. This recommendation came despite the fact that the Honduran Notables Commission -- set up to review the fuel price situation -- recommended the price freeze continue only through November 30, just after the November 27 Presidential elections, a decision endorsed by President Ricardo Maduro. This legislative action defines and legitimizes the financial impact for the entire price freeze period, estimated at 375 million Lempira (USD 20 million). The GOH will pick up 300 million Lempira (USD 16 million) and gasoline importers are expected to contribute the 75 million Lempira (USD 4 million) balance.

¶3. (C) The IMF has stated publicly that the GOH could meet this 300 million Lempira cost without substantially risking their hard-fought fiscal discipline. As discussed in ref B, an IMF official told EconOff that the Commission,s recommended November 30 deadline was timed to fall just after the November 27 presidential elections but before a scheduled IMF board meeting required to disburse new funding. The legislature's extension of the price freeze into December will likely lead the IMF to postpone that scheduled review of the GOH,s fiscal situation.

¶4. (U) The new legislation also featured for the first time specific instructions on how gasoline distributors will be compensated for the difference between the import price they are paying and the frozen retail price. Every two weeks the companies must present their claim amounts to the Ministry of Finance, which then has five days to pay them. The greater clarity on repayment has helped smooth acceptance of the 75 million Lempira subsidy by the fuel importers and distributors, although what constitutes the import price may be open to interpretation. Overall, the gasoline distributors Post has spoken with, while mindful of the upcoming change in administration in late January 2006, were guardedly optimistic.

¶5. (C) Minister of Finance William Chong Wong continued to express concerns over a U.S. citizen fuel consultant that is advising the Notables Commission. (Note: This consultant was selected and contracted by the Commission, and is in no way funded or endorsed by the USG or Post. To date, Post has had no direct contact with the consultant. End Note.) Per Chong Wong, the consultant is strongly recommending creating a GOH &tender8, or a government-led effort to centralize fuel purchases for the country. The consultant is specifically targeting the near bankrupt government power company ENEE as a candidate for the tender, which is suffering from the high cost of energy acquisition. Per Chong Wong, a GOH tender even to specifically help ENEE would be ®ressing to where we were in the 1980s.8 The consultant, whose business interests include global energy trading and supply management (ref B), appears to be seeking the proposed unit,s Commissioner role.

¶6. (U) In Minister Chong Wong,s view, a more constructive strategy is to renegotiate the overvalued debt and energy supplier contracts that ENEE has placed the last few years. To this end the Finance Ministry is working on a new debt issuance for ENEE, which will repackage about USD 100 million in existing high interest debt into five year notes at approximately 5.5 percent interest. The current debt, owed primarily to suppliers and private banks, has interest ranging from 14 to 18 percent. The more manageable debt load will allow the energy company to lower its debt payment and potentially renegotiate unfavorable contracts with suppliers that ENEE has had problems paying (ref C). The refinancing, per Chong Wong, may also save enough money to discourage GOH interest in a fuel tender.

¶7. (C) COMMENT: The GOH legislature's decision to ignore the November 30 deadline recommended by President Maduro and Catholic Church Cardinal Oscar Rodriguez and promote the more ambiguous &end of year8 deadline will give a longer buffer before the incoming administration has to announce how they will handle gasoline prices. Meanwhile, the IMF appears comfortable with the 300 million Lempira cost to the GOH and the gasoline distributors have grudgingly accepted their 75 million Lempira contribution, although with continued apprehension about repayments under the incoming administration. A GOH-led fuel tender for supplying ENEE remains a strong probability, amid concerns that injecting the government bureaucracy into fuel purchases would be harmful in the long run. Finally, despite Minister Chong Wong,s comments, restructured debt for a company that lost USD 165 million last year may not stave off an aggressive search for other solutions like a tender, particularly with mismanagement and lack of investment also topping the list of needed improvements at ENEE. END COMMENT.
Williard